

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00
FRB-03 INR-10 NSAE-00 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 AGRE-00 CEA-01 DODE-00
H-01 INT-05 L-03 PA-01 CTME-00 SS-15 STR-07
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E.O. 11652: N/A
TAGS: ECON, EFIN, JM
SUBJECT: REACTION TO TERMS OF NEW IMF AGREEMENT

REF: KINGSTON 3945

1. SUMMARY: THE TERMS OF THE NEW IMF AGREEMENT HAVE MET WITH WIDESPREAD OPPOSITION, PARTICULARLY BY THE ISLAND'S MAJOR TRADE UNIONS WHICH DESCRIBED THE WAGE GUIDELINES AS OPPRESSIVE AND ANNOUNCED THEIR INTENT TO OPPOSE THEM. THE PRIVATE SECTOR, WHILE LESS OUT-SPOKEN IN ITS OPPOSITION, RAISED SERIOUS QUESTIONS WITH RESPECT TO THE EXTENT OF THE DEVALUATION, THE MAGNITUDE OF THE IMPACT OF THE DEVALUATION AND TAX PACKAGE PRICES, AND THE EFFECTS OF THE PROGRAM ON THE COMPETITIVENESS OF JAMAICA'S EXPORTS. CONFUSION OVER CONSUMPTION AND STAMP TAXES AND PRICE GUIDELINES (FOR GOODS SUBJECT
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TO PRICE CONTROL) HAVE CAUSED MANY MANUFACTURERS AND DISTRIBUTORS TO INTERRUPT OPERATIONS. END SUMMARY

2. PREDICTABLY, THE UNIONS VOICED THE STRONGEST CRITICISM OF THE TERMS OF THE NEW IMF-GOJ AGREEMENT. ALL OF THE ISLAND'S MAJOR TRADE UNIONS CONDEMNED THE TERMS. THE BITU (LINKED TO THE JLP OPPOSITION PARTY) AND THE

NWU (AFFILIATED WITH THE PNP) DECLARED OPPOSITION TO THE NEW GOVERNMENT PAY GUIDELINES TABLED IN PARLIAMENT LAST WEEK. THE BITU STATEMENT DECLARED THE GUIDELINES "TOTALLY UNACCEPTABLE" AND CALLED FOR THEIR RENEGOTIATION. THE NWU SAID THAT "COMPULSORY WAGE RESTRAINT IS A SERIOUS ENCROACHMENT ON THE WORKERS' DEMOCRATIC RIGHTS" NEVER HAS BEEN A REAL ALTERNATIVE TO PROGRAMS TO COMBAT UNEMPLOYMENT AND INFLATION. IT COMPLAINED THAT "ALL INCOME POLICIES HAVE BEEN PREDOMINANTLY POLICIES OF WAGE RESTRAINT, IMPOSING THE GREATEST BURDEN ON THE WORKING CLASS". REPRESENTATIVES OF BOTH UNIONS INDICATED CATEGORICALLY THAT THEY WOULD REJECT THE GUIDELINES.

3. WHILE MORE MODERATE IN THEIR CRITICISM, SEVERAL SPOKESMEN FOR THE PRIVATE SECTOR ALSO SHOWED DEEP CONCERN ABOUT THE ANNOUNCED PROGRAMS. QUESTIONS WERE RAISED ON THE FOLLOWING POINTS:

A. AT WHAT LEVEL SHOULD THE PRICES OF GOODS (ESPECIALLY THOSE SUBJECT TO PRICE CONTROL) BE SET? WILL THE NEW PRICES REFLECT THE FULL IMPACT OF THE DEVALUATION AND THE INCREASE IN TAXES?

B. WILL THE 10 PERCENT STAMP TAX ALSO APPLY TO RAW MATERIAL IMPORTS REQUIRED FOR EXPORT GOODS? IF SO, HOW WOULD THE DEVALUATION PROMOTE THE COMPETITIVENESS OF JAMAICA'S EXPORT PRODUCTS?
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C. AT WHAT RATE SHOULD PAYMENT BE MADE FOR IMPORTS THAT HAVE ALREADY COME INTO THE ISLAND ON EXTENDED CREDIT BEFORE THE DEVALUATION WAS ANNOUNCED?

4. THERE WAS CONSIDERABLE CONCERN ABOUT THE EXTENT OF THE DEVALUATION, PARTICULARLY IN THE CASE OF THE BASIC RATE (ABOUT 48 PERCENT), AND ITS SUBSTANTIAL IMPACT ON THE PRICES OF ESSENTIAL COMMODITIES IN SPITE OF THE SUBSIDY PROGRAM IMPLEMENTED BY THE STATE TRADING CORPORATION TO CUSHION THE PRICE RISE.

5. THE SUNDAY GLEANER OF MAY 14 REPORTED THAT "HUNDREDS OF MANUFACTURERS AND DISTRIBUTORS HAVE CEASED DELIVERY OF GOODS BECAUSE THERE HAD BEEN INADEQUATE AND OFTEN CONFLICTING STATEMENTS ORDERING CHANGES IN ALMOST EVERY SINGLE ITEM WHICH AFFECTS THE PRICING OF THESE GOODS". IT WAS AGREED THAT RESOLUTION OF THE ISSUES MUST AWAIT DECISIONS BY THE MINISTERS OF FINANCE AND INDUSTRY & COMMERCE, THE GOVERNOR OF THE BANK OF JAMAICA, THE COLLECTOR GENERAL AND THE TRADE ADMINISTRATOR, SO THAT CLARIFICATION CAN BE OBTAINED ON THE GOVERNMENT'S POLICIES.

6. COMMENT: THE GOVERNMENT IS WELL AWARE THAT ACCEPTANCE BY LABOR UNIONS OF THE WAGE GUIDELINES IS CRUCIAL TO THE SUCCESS OF ITS ECONOMIC PROGRAM. SO FAR, THE UNIONS HAVE INDICATED REJECTION OF THE GUIDELINES IN THE STRONGEST TERMS. IN THE VIEW OF A SENIOR GOJ, OFFICIAL, THIS REJECTION WAS EXPECTED; THE REAL ANSWER WILL DEPEND ON THE OUTCOME OF THE WAGE NEGOTIATIONS.

A SECOND KEY ELEMENT TO THE SUCCESS OF THE PROGRAM IS ITS IMPACT ON THE DECISIONS OF THE PRIVATE SECTOR - BOTH WITH RESPECT TO THE LEVEL OF OUTPUT AND NEW INVESTMENT. MAJOR NEW INVESTMENTS ARE NOT LIKELY AS LONG AS DOUBT REMAINS WITH REGARD TO THE GOVERNMENT'S ABILITY TO HOLD WAGES AND PRICES IN LINE.

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HAVERKAMP

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